

Before the  
POSTAL REGULATORY COMMISSION  
Washington, DC 20268-0001

Periodic Reporting (UPS  
Proposals One, Two, and Three)

Docket No. RM2016-2

RESPONSE OF THE GREETING CARD ASSOCIATION TO  
PETITION OF UNITED PARCEL SERVICE

The Greeting Card Association (GCA), pursuant to Section 3001.21(b) and 3050.11 of the Rules of Practice, files this Response to the Petition of United Parcel Service, Inc. for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies (UPS Petition), filed October 8, 2015.

GCA has no objection to the initiation of the proceeding requested by UPS. The purpose of this Response is to call attention to certain issues, principally affecting the market-dominant sector of postal products, which are less than fully presented in the UPS Petition. For the most part, they concern UPS's Proposals One and Two.

Proposals One and Two would make very substantial changes in cost attribution methods. UPS explains at length both the expected effects and the reasoning behind these changes, insofar as they would apply to the competitive sector. Their potential effects on market-dominant products receive relatively little discussion, although it is clear that they could likewise be substantial. For example, Table 6, at p. 30 of Dr. Neels's report, indicates that while adoption of Proposal One would increase competitive products' attributable costs by 25 percent overall, with the largest increases (Priority Express and Ground) being 34

percent, it would raise attributable costs for the market-dominant sector as a whole by 38 percent, or about \$2.7 billion.

GCA believes that fair and comprehensive consideration of the UPS Proposals requires thorough analysis of their possible effects on market-dominant products. While UPS is certainly not wrong in emphasizing the maintenance of a level playing field for competitive services, any remedial measures found appropriate for that purpose should not be allowed to disrupt the (much larger) market-dominant sector.

This is true particularly because, while the ratemaking regime established by the Postal Reorganization Act of 1970 necessarily called for a single costing approach for both those classes and types of service subject to a statutory or de facto monopoly and those competing with private-sector suppliers, there are now two materially different systems. The CPI-U-based price cap for market-dominant products bears a much looser relationship to attributable cost than the “requirement” of former 39 U.S.C. sec. 3622(b)(3).<sup>1</sup> Section 3633(a)(2), on the other hand, requires every competitive product to cover its “costs attributable.” The basic difference in approach between the two systems requires, at the least, careful consideration before any methodological changes designed, as UPS’s Proposals appear to be, to alleviate perceived deficiencies in the costing of competitive products is applied to the market-dominant sector.

It is not only the basic ratemaking technique which differs as between these two systems; the objectives (sec. 3622(b)) and factors (sec. 3622(c)) are part of the “modern system for regulating rates and classes *for market-dominant*

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<sup>1</sup> Under present law, that requirement is a “factor” (39 U.S.C. sec. 3622(c)(2)). That it is now more a goal to be attained than a requirement which must be met immediately seems clear from the Commission’s treatment of underwater products. See, e.g., the treatment of Standard Mail Flats, *Annual Compliance Determination Report, Fiscal Year 2013*, pp. 52-53.. The presence of an exigency provision (sec. 3622(d)(1)(E)) does not require a different conclusion; indeed, in Docket No. R2013-11 the Commission specifically approved an across-the-board increase rather than one keyed in any way to the attributable costs of individual products. See PRC Op. R2013-11 (Order No. 1926), pp. 166-169.

*products*” called for by sec. 3622(a) (italics added). The competitive sector has its own set of rules and procedures, including both the cost recovery mandate and the appropriate share requirement, a prime object of which is “to ensure a level playing field in the competitive marketplace.”<sup>2</sup> Thus the essential goals of the two systems may diverge in important respects. For instance, sec. 3622(b)(2) makes it an objective of the market-dominant system to provide “predictability and stability in rates.” This is not necessarily a goal of ratemaking for competitive products; one reason for separating the two sectors was to allow the Postal Service to vary its competitive prices more rapidly. Mailers tied, either by statute or by marketplace facts, to the Postal Service as sole supplier are naturally more likely to desire stable and predictable rates than those who have a choice of carriers.

None of these concerns, important as they are, should deter the Commission from establishing the proceeding UPS asks for if it believes the inquiry would be worthwhile. GCA’s point is simply that, in any such proceeding, the need for and possible effects of applying UPS’s Proposals to the market-dominant sector should receive equally close attention.

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Respectfully submitted,

GREETING CARD ASSOCIATION

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<sup>2</sup> Docket No. RM2012-3, Order No. 1449, p. 13.